I Z A Institute of Labor Economics

Initiated by Deutsche Post Foundation

IZA COVID-19 Crisis Response Monitoring

Short-Run Labor Market Impacts of COVID-19, Initial Policy Measures and Beyond

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Summary

The unprecedented COVID-19 pandemic has a severe impact on societies, economies and labor markets. However, not all countries, socio-economic groups and sectors are equally affected. For example, occupational groups working in sectors where value chains have been disrupted and lockdowns have had direct impacts are affected more heavily, while the slowdown of hiring activities mostly affects young labor market entrants.

As a result, there has been a steep increase in unemployment rates in many countries, but not everywhere to the same extent. Part of this difference can be related to the different role and extent of short-time work schemes, which is now being used more widely than during the Great Recession. Some countries have created or expanded these schemes, making coverage less exclusive and benefits more generous, at least temporarily. But short-time work is certainly not a panacea to "flatten the unemployment curve".

Furthermore, next to providing liquidity support to firms, unemployment benefits have been made more generous in many countries. Often, activation principles have also been temporarily reduced. Some countries have increased access to income support to some extent also for non-standard workers, such as temporary agency workers or self-employed workers, on an ad hoc basis. A major change in working conditions is the broad move towards telework arrangements and work from home.

Nonetheless, it appears too early to assess the relative success of national strategies to cope with the pandemic and to revitalize the labor market as well as the medium-term fiscal viability of different support measures. Future monitoring will also have to trace policies to cope with the imminent structural changes that might result from the crisis or might be accelerated by the crisis.

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Introduction

Economic and social disruptions caused by the COVID-19 pandemic may have lasting effects on employment, income and working conditions. At the same time, there are significant cross-country differences in the labor market and social policy responses that are deployed to help mitigate the imminent crisis effects as has been shown by policy inventories released by the OECD and other institutions.

Against this background, several renowned labor economists have agreed to jointly monitor these crisis responses as country experts. Based on a qualitative survey among these experts, this report establishes an independent assessment of actual crisis-related policy responses, also drawing on the invaluable input of individual country reports (see Box 1). The interested reader may refer to the country experts' studies for more detailed information on individual countries, while this report summarizes their results and puts them into a broader perspective. Furthermore, it identifies some remarkable similarities and patterns across countries in the labor market impacts of COVID-19 and initial policy responses. But it also highlights important cross-country differences. The remainder of this report is organized along the set of eight questions included in the qualitative survey.

Box 1: List of Countries, Country Experts and Country Reports

While the following individual country reports have been used as background information for this report, updates will become available via the project website https://covid-19.iza.org/crisis-monitor/ in the near future.

Austria: René Böheim and Thomas Leoni
https://www.iza.org/wc/files/downloads/iza__crisismonitor_countryreport_at_202006.pdf

France: Pierre Cahuc
https://www.iza.org/wc/files/downloads/iza__crisismonitor_countryreport_fr_202006.pdf

Germany: Werner Eichhorst and Ulf Rinne
https://www.iza.org/wc/files/downloads/iza__crisismonitor_countryreport_de_202006.pdf

Italy: Tommaso Colussi
https://www.iza.org/wc/files/downloads/iza__crisismonitor_countryreport_it_202006.pdf

Netherlands: Egbert Jongen and Paul Verstraten
https://www.iza.org/wc/files/downloads/iza__crisismonitor_countryreport_nl_202006.pdf

Portugal: Priscila Ferreira, João Cerejeira and Miguel Portela
https://www.iza.org/wc/files/downloads/iza__crisismonitor_countryreport_pt_202006.pdf

Slovakia: Martin Kahanec and Monika Martišková
https://www.iza.org/wc/files/downloads/iza__crisismonitor_countryreport_sk_202006.pdf

Spain: Raul Ramos
https://www.iza.org/wc/files/downloads/iza__crisismonitor_countryreport_es_202006.pdf

Sweden: Lena Hensvik and Oskar Nordström Skans
https://www.iza.org/wc/files/downloads/iza__crisismonitor_countryreport_se_202006.pdf

Switzerland: Patrick Arni
https://www.iza.org/wc/files/downloads/iza__crisismonitor_countryreport_ch_202006.pdf

United Kingdom: Rui Costa and Stephen Machin
https://www.iza.org/wc/files/downloads/iza__crisismonitor_countryreport_uk_202006.pdf

United States: Susan Houseman
https://www.iza.org/wc/files/downloads/iza__crisismonitor_countryreport_us_202006.pdf

Labor market impact of COVID-19

Early forecasts about the economic impact of COVID-19 were clearly too optimistic. Over the past months, there has been a progressive deterioration of forecasts and of the actual economic situation. Recent forecasts expect dramatic declines of GDP between 6 and 12 percent in 2020 (but can be as high as 14 percent; see, e.g., OECD 2020). Quite negative scenarios apply to countries with severe and long-lasting lockdowns such as Spain, Italy or France. However, the labor market impact is likely to also differ depending on the specific institutional arrangements, employment structures and crisis response measures, as well as depending on the further development of the pandemic.

Currently, getting a reliable and timely overview of the labor market situation in the countries which are monitored in this report is not an easy task. Data is becoming available only with a substantial time lag and with limited reliability in some countries. This holds for survey data on unemployment, but in particular for the intensity with which some labor market instruments (e.g., short-time work) are actually being used. Due to these circumstances, data on unemployment rates based on standardized surveys as, for example, published by Eurostat or the OECD lack timeliness and reliability. Hence, the current situation with respect to unemployment appears to be best approximated by not necessarily strictly comparable administrative data.

Taking the number of registered unemployed from May 2020 relative to May 2019 as benchmark, there has been a massive increase by more than 50 percent in countries like Austria, the United Kingdom, Sweden or Switzerland. However, this increase has been even larger in the United States, while other countries reported rather moderate increases in unemployment between May 2019 and May 2020, e.g., France or Italy. This might be due to some delays in data reporting on the one hand, but institutional explanations might matter more. In fact, some countries have seen a massive decline in working hours in general, and in particular a massive increase in notifications for and take-up rates of short-time work.

Hence, it seems plausible to map countries along the following two dimensions: a) the year-over-year increase in unemployment, and b) the current extent to which short-time work is used. While Table 1 shows that there is no clear inverse relationship between the two dimensions, this illustration can nonetheless provide a broad picture (despite some measurement issues with both dimensions).

For example, the United States is the most prominent case of a steep unemployment increase in this country sample. Unemployment in the United States rose to almost 16 percent in April 2020 (with some difference in survey data and register data) with some improvement since then. Job destruction has been relatively quick there, but also some early signs of recovery are potentially visible. On the other hand, work sharing plays only a very minor, albeit growing role in the United States. A similar case can be made for the United Kingdom where employment has markedly declined and unemployment has more than doubled compared to one year before. This is accompanied by a fall in working hours outside short-time work, but also – and different from the situation in the United States – in the context of a job retention scheme that allows for furloughing (stabilizing more than a fourth of all jobs in the United Kingdom at the time of writing).

Table 1: Unemployment and Short-time Work

		Share of employees in short-time work (in % of total dependent employment in May 2020)		
		High (> 30%)	Medium (10-30%)	Low (< 10%)
Year-over-year increase in registered unemployment (May 2020 relative to May 2019)	Very strong (> 100%)		United Kingdom	United States
	Strong (> 50-100%)	Austria, Switzerland		
	Moderate (25-50%)		Germany, Portugal, Spain	Sweden, Slovakia
	Small (< 25%)	France, Italy	Netherlands	

Source: Authors' illustration based on country reports (listed in Box 1) and OECD data.
Notes: Regarding short-time work, some countries only provide notifications that are not necessarily identical with the number of individuals actually taking up short-time work at a later stage.

In Austria, while experiencing also a remarkable decline in employment and record levels of unemployment, about one-third of the (dependent) labor force is in short-time work that was adapted to mitigate the consequences of COVID-19. Parallel to a steep increase in unemployment, Switzerland is also using short-time work quite intensively, potentially for about 37 percent of its workforce.

Other countries have not (yet) seen a comparable increase in unemployment. Germany has used short-time work successfully in the past during the Great Recession, but current take-up is estimated to be significantly higher than during the 2008-09 crisis. While exact figures of workers actually relying on short-time work only become available with a significant delay in Germany, the latest estimates are about 6 to 7 million short-time workers (i.e., about 20 percent of all dependent employees in Germany). This probably corresponds to more than 1 million workers in full-time equivalents in 2020, buffering against a massive increase in unemployment (which nonetheless grew by 26 percent between May 2019 and May 2020).

The Netherlands report a drop in working hours, too, with particularly strong declines in catering, in the cultural sector and for the self-employed, while registered unemployment increased by less than 10 percent since May 2019. More than 20 percent of all Dutch workers are employed in firms with short-time work arrangements at the moment. The same is true for Spain, where the new temporary employment adjustment scheme ERTE is covering about one in five workers, preventing (or least delaying) massive job destruction at the moment. Nonetheless, Spain has recorded about 25 percent more unemployed in May 2020 than in May 2019.

Despite relatively mild restrictions on economic activities and daily life, Sweden shows a rather strong increase in unemployment by more than 35 percent. In addition, the role of the newly created short-time work scheme is growing, albeit rather moderately in comparison (it covers about nine percent of the Swedish workforce). Slovakia, having implemented strict control measures, saw a comparable rise in unemployment, but also rolled out a short-time work scheme with limited importance so far. National data for France also show some resilience in employment (and no strong unemployment reaction, based on the data reported), accompanied by a very strong reliance on short-time work (used by about half of the employees). About one-quarter of all workers have been laid off temporarily in Portugal, while unemployment has increased by more than one-third.

Italy seems in a peculiar situation with a reported decline in unemployment, driven by discouraged job seekers leaving the labor force, and a very prominent role of short-time work covering about half of the Italian workers in the private sector or about one-third of total employment. Yet, the severe lockdown is likely to lead to major short-term disruptions in the Italian labor market with an imminent increase in unemployment.

While the crisis affects virtually all sectors to some extent and in different ways, the impact of the crisis is highly unequal across socio-economic groups in the labor force. Even in countries with moderate overall unemployment reactions, not all sectors use external flexibility (dismissals, termination of fixed-term contracts, reduction of temporary agency work) and internal flexibility (short-time work, work sharing) to the same extent. This strongly depends on the willingness of employers to hoard certain types of labor, given required skill levels and qualifications (and their degree of substitutability), as well as on employment protection legislation.

When studying country experiences more closely, employment losses tend to be concentrated in sectors that were directly affected by lockdown measures or disrupted value chains or general economic uncertainty. In fact, the sectoral composition of jobs destroyed appears quite similar across countries. The hospitality sector, leisure and tourism (hotels, restaurants, and travel), cultural activities and events, local retail trade, and logistics were most affected by declines in working hours and employment rates. In some countries, declining employment in manufacturing was noted (Portugal, Switzerland). At the same time, temporary peaks in demand could be observed in health, supermarkets or online retail trade and delivery services.

Furthermore, particular difficulties are clearly visible for low-skilled workers (and migrants), given the sectoral composition of their jobs and limited ability to work from home. The latter has critically contributed to the continuation of work in many white collar jobs. At the same time, many young labor market entrants, but also jobseekers in general, suffer from a massive decline in vacancies (for entry level jobs and jobs in general) and new hirings. In general, the crisis has so far rather reduced hiring rates than increased dismissal rates (in the continental European context). Particular difficulties can be expected for recent school leavers and graduates as well as apprentices in their final stages as job transitions will be hampered this summer.

There is a general inequality of the labor market impact of COVID-19 to the detriment of those with temporary or variable contracts. For example, fixed-term employment is declining more strongly than permanent contracts in countries where this divide is particularly relevant such as Spain, Portugal or France. Temporary agency workers face a larger risk of being made redundant (e.g. in the Netherlands or Slovakia). The same holds true for marginal part-time workers, on-call workers and independent contractors in sectors that are heavily affected, despite some efforts to include them better into social protection and short-time work schemes (e.g., in Switzerland). The actual effect of the crisis on specific categories of workers, however, also depends on the institutional setting in the respective country and on the sectoral or occupational composition of non-standard work. In many cases, those affected by labor market disruptions have no or only very limited access to social insurance, and thus heavily depend on means-tested income support and ad hoc relief measures.

Most experts agree that the peak in unemployment rates is yet to come, due to dismissals after an initial phase of short-time work, fewer hirings, very limited active labor market policies and increasing unemployment durations (in the continental European context). Hence, it appears too early to assess the success or failure of different national strategies.

Orientation and targeting of adopted measures

The measures adopted to mitigate the consequences of COVID-19, as compiled in the OECD inventory and confirmed by the country papers, show large similarities and form a broad immediate crisis response package. They typically include four types of schemes:

1. A direct labor cost relief and liquidity support to firms in order to allow them to continue their activities in a critical situation so as to maintain staff. This typically includes loans and guarantees, but also tax and contribution deferrals.
2. Special ad hoc programs have been adopted to support freelancers, i.e., self-employed that are typically not included in unemployment insurance. Some countries were quick to adopt these measures, others exhibit some delay. Also, these measures do not necessarily provide income support, but cover running business expenses; and they could be limited in terms of amount and duration as well as focusing only on certain types of businesses or freelance activities.
3. Probably the most important program to deal with the crisis in this early stage is the expansion of short-time work schemes or equivalent schemes. Alternative schemes are called work sharing (at the state level in the United States), temporary layoffs (Portugal) or temporary adjustment (Spain). New schemes have been introduced in Portugal, Sweden and Slovakia, whereas other countries such as the Netherlands, Switzerland, Austria, France or Germany have enlarged existing schemes and made them more attractive to employers and/or workers. Some of these countries have also explicitly widened the scope of short-time work to include fixed-term workers, temporary agency workers or (quasi) self-employed. During short-time work, dismissals for business reasons are difficult if not legally prohibited in order to ensure the stability of permanent contracts at least for some time. It is obvious that compared to the Great Recession, in the current crisis more countries are using this instrument. While short-time work is still biased in favor of permanent workers and certain industries, the formal and actual range of workers and sectors covered is wider than in the 2008-09 crisis.
4. Lastly, some countries have raised unemployment benefit levels (in some constellations) and prolonged benefit duration in unemployment insurance, in particular to account for the lockdown period when active labor market policies have been disrupted (and activation requirements waived). Coverage has sometimes been extended to include some categories of non-standard workers. Unemployment assistance generosity has been temporarily increased in Austria, and a new income support scheme has been introduced in Spain.

Individual countries have attached different weights to these four broad categories of schemes.

According to current assessments, the measures adopted in the early phase of the crisis are seen as broadly effective in stabilizing liquidity of firms and income of those with no job or shorter working time. However, their fiscal implications might be severe in the medium and long term if economic activity does not pick up again.

Yet, we can see some areas that have not been addressed (systematically):

- Generally speaking, there is no targeted policy for labor market entrants (e.g. university graduates, school leavers, VET graduates) and no clear initiative to restart ALMPs.
- Many countries have experienced tensions with respect to child care facility closures and school closures as well as their consequences on parents’ employment.

- Some groups have lost their jobs without registering as unemployed, in particular if no unemployment insurance benefits are accessible to them. For example, this is the case for marginal part-time workers in Germany. These discouraged workers withdraw from the labor market and move towards inactivity (as can be already observed in Italy).

Immediate liquidity support to businesses

The initial lockdown period meant a profound shock for businesses in Europe. A particular challenge has been the rapid and simultaneous disruption of operations in the domestic sectors and the export industry. As a consequence, there has been widespread concern about massive increases in bankruptcies even among financially healthy firms.

All countries in our sample therefore had to take measures to support the liquidity of companies. This usually took the form of guarantees, loans, or deferred tax and social security payments. This was often complemented with more idiosyncratic initiatives to support specific segments or industries. For instance, several countries decided to support airlines with rather large sums. The relative size of these different programs is currently difficult to assess. It can be expected, particularly if the recession will last, that the pre-crisis fiscal situation of individual countries will influence the size of liquidity measures.

The situation of small businesses has been a particular concern for policy-makers in most countries analyzed here. One potential problem is that such businesses do not have sufficient financial buffers to survive a period with no or significantly reduced revenues. Several countries have therefore set up funds from which lump-sum payments to small businesses are financed. This happened, for example, in Austria, France, and Germany. Germany provides higher payments than most other countries, ranging from 9,000 Euro to 15,000 Euro, depending on the number of workers. However, the sum is strictly reserved for business expenses and must not be used as income replacement. Sometimes tax reductions (e.g., in Sweden) or specific loans (e.g., in United States, Italy, and Sweden) were reserved for small companies.

A second concern is the social security of the self-employed with no or few workers, who usually are poorly integrated in unemployment insurance. Already over the past decade, a debate has emerged about whether European employment models depend excessively on low-paid and precarious forms of self-employment. In any case, the problem pressure of unprotected jobless individuals who were previously self-employed forced many countries to adjust their social security systems. Generally, the trend is to provide benefits roughly at the level of social assistance, but with more lenient access and behavioral requirements. The variety of measures can be illustrated with some examples.

The Netherlands created a temporary benefit scheme for three months on the municipal level that provides benefits (at the level of social assistance) for the self-employed without strict means-testing (called Tozo). Until May 2020, Tozo was claimed by almost a fourth of all self-employed workers in the Netherlands. The scheme was recently extended until October 2020, but it now includes a partner income test. Italy temporarily pays an allowance of 600 Euro per months to the self-employed and other non-insured types of workers. In the United Kingdom, a new scheme provides taxable grants corresponding to 80 percent of the self-employed's average monthly trading profits up to a total of 7,500 GBP. By mid-June 2020, already 2.6 million persons had applied for such grants.

A particularly generous treatment of the self-employed can be observed in the United States. Here, self-employed workers were made temporarily eligible for unemployment insurance (that was extended considerably, see Section 4 below) through a federally funded program. This means that many freelancers and independent contractors should receive much more generous insurance benefits than comparable workers in Europe, who often have to rely on social assistance or equivalent payments.

In most countries, the measures taken to protect the self-employed were ad hoc and adopted temporarily. Against this background, it is remarkable that Spain used the crisis as an opportunity to permanently modernize its social assistance, which previously differed across municipalities. Since June, there is a unified system (Ingreso Minimo Vital) that pays up to 1,000 Euro to families and 460 Euro to singles who fall in the definition of severe poverty (below 40 percent of median income). This will make the social security net much more consistent. The Spanish government expects around 850,000 households and more than 2 million people to benefit from this scheme. The costs are estimated to be approximately 3 billion Euro.

In sum, there is a variety of measures to support the liquidity of companies and the income of the self-employed. Many of the schemes were rather improvised and to date, it is not clear whether the implementation has been appropriate to provide rapid assistance. In Italy, for instance, the Central Guarantee Fund provides loans up to 2,500 Euro to SMEs that are fully guaranteed by the Italian state. According to preliminary research, only a minority of eligible firms have applied, presumably because of excessively bureaucratic applications procedures. In Switzerland, it has been noted that there is a gap between guaranteed loans that have been approved and that have actually been taken up by firms. A reason could be that SMEs that are not forced to do so try to avoid indebtedness. This links to the question of what happens if the crisis lasts longer and SMEs will face difficulties to repay their state-provided or guaranteed loans. Another implementation issue has arisen in Germany with lump-sum payments to the self-employed and small businesses. During the improvised roll-out, miscommunication initially led to a widespread impression that the money can be used for personal expenses, whereas it really is reserved for business-related expenses. The self-employed can only rely on social assistance for income replacement. It is currently uncertain if and to what extent the state will reclaim misappropriated payments. Also in the United Kingdom, surveys show that at least in the initial period of the above-mentioned Coronavirus Self-Employed Income Support Scheme, there was widespread confusion about the eligibility criteria.

Problems such as these illustrate that the countries in our sample have much less experience with taking measures to protect self-employed compared to dependent workers. The next months should be a period of intense evaluation and policy learning in this field.

Support of dependent workers

The initial crisis response of the covered countries has shown some remarkable similarities. Most countries have tried to use a version of short-time work schemes to keep workers in their jobs and unemployment low. This makes a lot of sense, because the COVID-19 crisis looked (at least initially) more certain than ordinary shocks to take a V-shaped pattern. In such a situation, short-time work schemes have their strongest justification.

Several countries already had such scheme in place at the beginning of the crisis. In almost all cases, additional measures were taken to expand these existing schemes. The goal usually was to make them more inclusive and to lower residual costs for employers. Austria introduced, for instance, a temporary “Coronavirus short-time work scheme” that is more generous than the usual version. In France, Spain, and Italy, additional sectors were included in the scheme and/or requirements for eligibility were relaxed. Germany, which made positive experiences with short-time work in the Great Recession, eased eligibility requirements for firms, raised replacement rates, and opened up the possibility for temporary agency workers to benefit from the scheme. The idea to include vulnerable types of workers was pursued even more decidedly in Switzerland, where workers on fixed-term contracts, apprentices, temporary workers, on-call workers and even family members helping in small firms have become entitled, at least temporarily. In the United Kingdom, the Coronavirus Job Retention Scheme allows companies to send employees on leave, while 80 percent of the salary is compensated by the state. Compared to short-time work schemes in most other countries, this program now also allows workers to take up part-time jobs in other companies (furloughing). This is an interesting institutional feature that could be considered in other countries. The Netherlands, Slovak Republic and Sweden have set up schemes in the crisis that closely resemble the typical parameters in other countries.

In most countries, applications for short-time work have soared in the crisis. It certainly is at the core of the European crisis response. Besides the replacement rate, important institutional differences relate to the extent to which employers can reduce labor costs. This includes the remaining wage share that has to be covered and the question of whether social security contributions are waived. Some countries, such as France and Germany, allow short-time work without any costs to employers, but that is not the standard in Europe. At the other end of the spectrum is Portugal. In its temporary layoff scheme, employers still have to cover 30 percent of the wage, which makes the scheme considerably less generous.

In the United States, short-time work schemes are administered at the state level. At the beginning of the crisis, only 26 states had such programs in place. The federal government decided to provide financial assistance to these programs and to support the remaining states to develop similar ones. The main reaction in the United States, however, was to considerably extend the coverage of unemployment insurance, which has been comparatively ungenerous. This happened most notably by paying an additional 600 US-Dollar per week out of Federal funds and by extending maximum benefit duration by 13 weeks. By some estimates, this generous treatment of low and medium incomes (in place at least until July 2020) has shifted the median replacement rate to more than 130 percent, so that many eligible workers could earn more than on their jobs.

Although unemployment was less in the focus of European policy makers, many countries have extended eligibility or eased access (see also Section 3). The question was particularly relevant in Sweden, where the income ceiling for calculating benefits is rather low and which has a Ghent system with limited coverage through unemployment insurance funds. The government reacted, inter alia, with shortening the membership duration in funds that is necessary for eligibility to insurance benefits and with raising the benefit ceiling. Spain went into a similar direction by temporarily suspending minimum contribution periods for unemployment insurance.

Complementing the focus on keeping workers in their jobs during the crisis, some countries have temporarily changed dismissal regulation. Layoffs were banned or restricted in Italy, Portugal, Slovak Republic and Spain (a tighter control of collective dismissals was announced in France but has not yet been implemented).

Working conditions and work organization

COVID-19 led to a lockdown of economic activities in most countries, albeit with a different timing and intensity. Simultaneously, a massive expansion in working from home was observed – not only because of legal restrictions, contact bans and new guidelines by health and safety at work authorities, but also because of individual health concerns (especially for persons belonging to at-risk groups) and additional care responsibilities (due to school and child care facility closures). Against this background, COVID-19 pushed firms, schools, universities and public administration to consider the adoption of new technologies that allow employees to work from home.

To give just one representative example illustrating the expansion of telework, the share of employees who work from home at least two hours a day has doubled in the Netherlands compared to the pre-crisis situation (von Gaudecker et al. 2020). Similar increases can be observed in other countries, but there is also substantial heterogeneity across sectors. For example, in France telework is particularly frequent in the information and communication sector (63 percent of employees), and in financial and insurance activities (55 percent). These are sectors in which telework was already relatively common before the current crisis. In other sectors, including hotels and restaurants (6 percent of employees), construction (12 percent), the food industry (12 percent) and transport (13 percent), work from home still relatively rarely occurs. Pre-crisis patterns in work from home across sectors were therefore amplified.

It should be noted that the Swedish case is somewhat exceptional, also in this context. While recommendations by public health authorities to work from home, if possible, had a substantial impact on the time spent at work, the shift to telework was more gradual and less pronounced in Sweden than in its neighboring countries. This can be explained by the fact that some workplaces that were closed by law in other countries remained open in Sweden, most notably schools and child care facilities, allowing parents to continue working as before.

While the adoption of work from home has generally helped to mitigate the drop in working hours, in some countries – especially in those that were heavily affected at a rather early stage – a larger share of workers had to actually stop working. For example, six weeks after the beginning of the lockdown in Italy, the share of workers who (temporarily or permanently) stopped working was estimated at about 34 percent (Galasso, 2020). This share was particularly large among blue collar workers and, more generally, for jobs that could not be done remotely.

The effects of border closures or intensified border controls appear especially relevant for smaller, open economies and for regions in closer proximity to a border with strong cross-border links. For example, the number of cross-border workers in Slovakia amounts to about 5 percent of the country’s labor force. Many of these workers are employed in health care; and a larger share adapted by staying in their host countries. In addition, special arrangements came into effect which included back-and-forth commuting options for those living in closer proximity to the border. Such temporary and discretional measures aimed at containing COVID-19 as much as possible without limiting economic activities by a too large extent.

Economic activities in “essential” sectors were generally not restricted. On the contrary, in some cases the workload in these sectors increased quite substantially. These sectors were mainly the health care sector and wholesale and retail trade (groceries). But workload also increased to some extent in public administration or banks (e.g., to handle applications for unemployment benefits, short-time work, credits or loans). For example, almost 8 percent of workers in the United Kingdom responded in a representative survey that they have been working longer hours with no or reduced breaks in early June (ONS, 2020).

New hygiene rules, standards and guidelines by health and safety at work authorities to reduce the imminent risk of COVID-19 infections (also in effect after the initial period of lockdown) have been introduced in many countries, often sector-specific and not just limited to essential sectors. It can be expected that these measures will be gradually adapted in the future, also depending on the spread of COVID-19. While it is clear that these health measures could reduce productivity now and also in the future, the precise extent to which this may be the case is not yet clear. According to anecdotal evidence from Austria, special working arrangements are still in place in many firms because the workplace organization makes it difficult to apply the hygiene rules prescribed by the government. This is the case, for instance, in many larger firms, where workplaces are organized in open-plan offices. Many firms have therefore shifted towards weekly, or sometimes daily, worker rotation schemes (i.e., workers rotate between working from home or in the office or groups of workers attend the workplace while other groups work from home).

In response to the crisis, quite a few countries have introduced new temporary regulations of working time and holidays (e.g., Germany, Switzerland, or France). These new regulations are often in effect until December 31, 2020 and usually imply relaxed rules, most notably with respect to working hours and resting hours, but are sometimes sector-specific. For example, the Swiss government temporarily relaxed the rules governing working conditions for medical institutions and gave specific exceptions to extend weekly working hours beyond the usual legal maximum to the meat industry and banking sector (in the latter case to handle the bridging loans applications). In Sweden, to accommodate the increased demand in the health care sector, medical unions and employers have agreed on a crisis agreement, which requires staff to potentially work more hours and adapt to location changes in case of an emergency situation. In return, the employees receive a bonus payment, but this agreement has so far only been activated in one area of Stockholm that was most heavily affected by COVID-19. In Slovakia, some aspects of working time regulation generally do not apply to workers for which working from home (or telework) is their main form of work.

These ongoing changes in working conditions and in the work organization within firms may contribute to an intensifying polarization in the labor market. Some observers point to a new labor market divide between those workers that are able to work from home (with differences between workers with or without care obligations), those working in the service sector or in essential sectors (e.g., frontline workers with a higher risk of infection and an increased workload) and those workers with a high risk of losing their jobs (e.g., hotels and restaurants, tourism, cultural sector). For example, in Austria the share of working from home varies greatly across skill-levels and occupations. While only 14 percent of workers with compulsory education and 26 percent of those with a dual vocational education degree worked remotely, half of the workers with upper secondary education and almost two thirds of those with tertiary education did so (Pichler et al. 2020). Similar findings in a disaggregation by income level also highlight the social gradient of COVID-19's labor market impact.

At the broader level of society, traditional gender roles regarding care responsibilities may be reactivated in the wake of the current crisis. For example, primarily due to school and child care facilities closures, COVID-19 is estimated to have directly affected care arrangements for about 10 percent of the working age population in the United Kingdom. Gender differences are large: only 7 percent of men have been directly affected, but almost 13 percent of women (ONS 2020). However, while women still appear to have been doing the greater share of child care, the gender child care gap for the additional, post-COVID-19 hours is smaller than that for the allocation of pre-COVID-19 child care (albeit with a substantial degree of heterogeneity across families; Sevilla and Smith 2020). Again, this situation is different in Sweden as school and child care facilities have remained open. This clearly helped parents to continue working as before, especially in the context of a Nordic country with a very clearly developed dual-earner model and a near universal residential separation between children and their grandparents.

The longer-term implications of changes in working conditions and in the work organization within firms are not yet clear. The sudden rise in work from home may, however, trigger a debate about new regulations for this type of work arrangements (e.g., in Germany). While it is too early to judge whether this discussion will ultimately result in a new legal framework in some countries, the outcome of the debate will very likely depend on how lasting the shift towards working from home actually turns out to be. Regarding the possible return to more traditional gender roles, there appears to be no consistent evidence so far.

New labor market entrants

Although there is a very broad consensus that new labor market entrants will be facing particular difficulties this year and potentially severe and long-lasting scarring effects, only few actual policy responses targeted at this particular group can be observed.

Within the group of new entrants to the labor market, three subgroups can be distinguished:

- Graduates (from schools and universities), apprentices: Many of those individuals who were supposed to finish their studies soon are currently confronted with short-term practical problems how to continue their studies and to actually obtain their degree. Moreover, they will enter the labor market in a period of a severe recession, which can have very substantial long-term effects (Kahn 2010; Oreopoulos et al. 2012).
- Unemployed, out of the labor force: These individuals are confronted with reduced hiring activities by firms and a massive drop in posted vacancies. This sharp drop in labor demand may also lead to increasing inactivity rates and more discouraged workers.
- Crisis layoffs: Individuals who lose their job in the current recession may face particular challenges to quickly return to employment. Although at this stage, in some (predominantly European) countries with a larger welfare state, the increase in unemployment is mainly driven by a massive drop in vacancies and hirings, a longer recession will ultimately lead to layoffs also in these countries. When this happens, the affected individuals are not only confronted with the slump in labor demand, but also with continued and potentially accelerated structural change. Job profiles and skill requirements may change accordingly, and dismissed workers may therefore not be able to easily return to their former job.

More generally, younger workers and immigrant workers may be particularly hit by the current crisis. The important difference to previous recessions is that in the current situation, also many sectors that offer entry-level jobs are affected (e.g., hotels and restaurants, retail). In some countries (e.g., United Kingdom), it is even the case that precisely those sectors which used to absorb part of the downturn employment in previous recessions are currently the most affected. This considerably worsens the outlook for new labor market entrants – and also for groups such as refugee immigrants, for which labor market conditions upon entry may have lasting negative effects (Aslund and Rooth 2007). This could pose a particular challenge for countries that still deal with the labor market integration of the most recent refugee influx (e.g., Germany).

While it is also possible that some firms may even increase their hiring activities and may act countercyclically in this respect, this is clearly not a dominant strategy in the current situation with large uncertainty. It may also be more relevant in countries facing demographic change and imminent skill shortages (such as Germany). In these countries, firms in a relatively strong position (e.g., in terms of liquidity or business expectations) could even increase their hiring activities, especially focusing on younger workers with sought-after skills. To avoid time-consuming, competitive and costly staffing in the future, it could be a rational approach to hire such workers even when product demand is weak.

The situation for younger workers may be particularly challenging in countries that heavily rely on the dual apprenticeship system (e.g., Germany, Austria, Switzerland) as this form of the vocational training system also depends on firms' demand for apprentices. This could imply that younger workers in these countries do not only face deteriorating employment prospects after their graduation, but also that a larger part of the usual vocational training system leading to degrees and certificates may come to a halt. For example, preliminary figures for Austria indicate that the number of vacancies for apprentices in May 2020 declined by about 30 percent in comparison to the previous year. In Austria, about 71 percent more persons were looking for an apprenticeship position in May 2020 than in May 2019. More positive signals can be observed from Switzerland, where for the upcoming cohort two thirds of all offered apprenticeship positions have been already filled. However, as the majority of apprenticeships usually start only in late summer, it seems too early to judge how this situation will evolve until then. In any case, demand and supply on the vocational training market should be closely monitored – especially in countries with a strong dual apprenticeship system.

Other countries, mainly in Southern Europe, may also face huge challenges with respect to new labor market entrants. Although these countries do not rely on dual apprenticeships systems, they have to deal with notoriously high youth unemployment rates – even in the pre-crisis situation. For example, in Spain the situation for new labor market entrants could be very difficult this year, especially during summer when they are usually offered internship positions that are often converted into temporary employment contracts. A similar situation may actually occur in Sweden, where summer job contacts play a major role for the school-to-work transitions of high school graduates. Hensvik et al. (2017) show that as many as one-third of the vocational high school students in Sweden find their first stable job in firms in which they had previously held a summer job during high school. This share is moreover notably higher during recessions.

Concerning school-to-work transitions, it appears as a rational approach in the current situation to stay longer in education than otherwise. However, this implies an increased competition after the crisis. It may also imply the need for additional funding on an emergency basis aimed at both students and educators.

Next to that, various policy responses how to best support labor market entrants are currently discussed – albeit with remarkable heterogeneity in the intensity of these discussions across countries. While there is an intensive policy discussion and also rather concrete initiatives in some countries, the situation of new labor market entrants has not yet received much attention in other countries. The latter seems to be the case in Southern European countries such as Italy, Portugal, and Spain, but also in Sweden, Switzerland, or the United States. In countries with rather concrete initiatives, these measures appear to strongly depend on institutional context. For example, a joint federal support initiative to make apprenticeship capacities more resilient in times of crisis will come into effect in Germany. The program includes bonus payments to SMEs that provide apprenticeships, bonus payments to firms taking over a current apprentice from a firm that has gone bankrupt during the crisis, support to avoid short-time work among apprentices, and incentives for training in facilities outside individual firms. Hiring subsidies targeted at younger workers and subsidies for apprentices have been announced for the next coming months in France (but details are not yet clear). An internship scheme to support school-to-work transitions of graduates has been proposed in Slovakia.

Policy innovations and labor market trends

In many countries, one can currently observe governmental interventions at an unprecedented speed and breadth. The short-run objectives of various policy responses are predominantly income and employment stabilization. In some countries, these responses rely to a larger extent on automatic stabilizers, while the amount of discretionary measures is generally large and often unprecedented. Nonetheless, the degree of policy innovation appears rather incremental than revolutionary – possibly with the exception of short-time work schemes. This instrument has been expanded or newly introduced in a number of countries.

In the current stage of the crisis, a policy debate about the need for additional measures to stimulate the economy and mitigate unemployment – mainly fiscal stimulus packages – appears to gain momentum. The situation in the United States can serve as a prime example illustrating the different views in this debate. On the one hand, it is argued in favor of extending measures and adopting a major economic stimulus package that would include significant infrastructure spending. On the other hand, it is argued to wait for the effects of existing measures and to see how the economy responds when initial restrictions on business openings are gradually lifted. The outcome, however, may be similar as in Germany, where the government has agreed upon another stimulus package in June 2020. Including this latest stimulus package, Germany's measures – together with liquidity aid and loan guarantees – equal more than 30 percent of the country's annual GDP (BMF 2020a; BMF 2020b).

It is a very common perception that the current crisis may accelerate structural change and digitalization. Firms may increasingly view digital tools as a hedge and reinsurance against external shocks. In this respect, the crisis is also an endurance test of firms' (and countries') past digital achievements, and their past omissions become very visible. Of a more fundamental nature is the fact that also the general attitudes towards robots may change. While the widespread perception of many workers had been that robots are a threat for their jobs, the current crisis shows rather clearly that they can actually help preserving labor by allowing firms to continue or even expand their production also in turbulent times. Nonetheless, an increased speed of structural change could be too quick for some workers, and an accelerated pace of job destruction may make it very difficult for dismissed workers to find new employment.

In addition, the current crisis may also accelerate the pre-crisis trend of shifting a share of the usual work schedule to working from home. Hence, remote work may become more frequently at least a realistic option for a substantial share of the workforce. Also the attitudes towards working from home could change permanently – but it appears open in which direction: On the one hand, many workers and firms have now experienced first-hand that working from home is actually feasible in their business environment. On the other hand, quite a few workers and firms have also now experienced how difficult it is to cope with the various challenges posed by working from home. Hence, it is not yet clear if the currently observed shift towards working from home will continue after the crisis. Among other things, this will also depend on its impact on workers' productivity. While the currently available evidence on this issue is still scarce, it appears that productivity effects are rather heterogeneous across workers and sectors.

Other pre-crisis trends – often sector-specific – may be amplified by the crisis. For example, it appears likely that the crisis will accelerate the long-term decline of local retail, often delivered through smaller shops, while all forms of online retail will experience an extra boost. A similar experience was made in Asia after the 2002-04 SARS outbreak. In addition, the ongoing transformation of manufacturing, in particular of car manufacturers and their suppliers, may proceed even more rapidly than expected before the crisis. More generally, labor demand shifts may be further amplified by adjustments on the supply side. For example, the scope and direction of job search may change (e.g., directed towards more resilient jobs; Hensvik et al. 2020).

The crisis may therefore act as a catalyst for a number of pre-crisis trends. But some pre-crisis trends may in fact be reversed. One candidate in this context is the re-organization and reallocation of global value chain downstream production. It is argued that in some countries, a reshoring of certain activities is likely to occur. In this scenario, the current economic shock will push firms to decrease especially their dependency on single geographic-centric suppliers. However, in an alternative scenario, significantly shorter or less complex global value chains in industrial production are unlikely to occur. One argument supporting this view is that firms in the post-crisis situation may even rely to a larger extent on cost-saving initiatives, which typically include outsourcing and offshoring. A re-organization and reallocation of global value chain downstream production is then unlikely to occur – especially in countries where the level of automation is already very high (e.g., Germany; Krzywdzinski 2020). This view is also shared by countries with a lower level of automation (e.g., Slovakia) that are rather concerned about a potentially widening gap between countries relying on cheap and labor-intensive production, and countries relying on innovative and capital-intensive production.

From the current perspective, it appears rather unclear how the crisis may ultimately affect the design of alternative work arrangements (including self-employment and freelance work). Similarly, it appears too early to draw general lessons from the current crisis for the future design of the welfare state. But it could be the case that in some countries (e.g., United Kingdom) the already existing willingness-to-pay for more job security and social safety among self-employed workers (Blundell and Machin, 2020; Boeri et al. 2020) may be intensified when a significant proportion of workers in alternative work arrangements are currently suffering significant economic hardship. Moreover, in the current situation of economic turmoil, some pre-crisis reforms in this area could be postponed, adjusted, or even not implemented all (e.g., the heavily debated reforms of the French pension and unemployment insurance system).

In the long run, the overall functioning of the labor market may be affected by the trade-off between health concerns and economic growth, which has taken on a much greater significance. However, there are also more optimistic views given the nature of this crisis as a prototypical external shock. In addition, the increasing use of online tools could have a greater impact on the search and matching process in the labor market as broader population groups have gained deeper online experiences, sometimes involuntarily. Online processes and platform solutions may become more widespread. Finally, the sudden changes as a result of the outbreak of the pandemic may hold the ground for a multitude of innovations that are not yet foreseeable in detail.

Next steps and fiscal viability

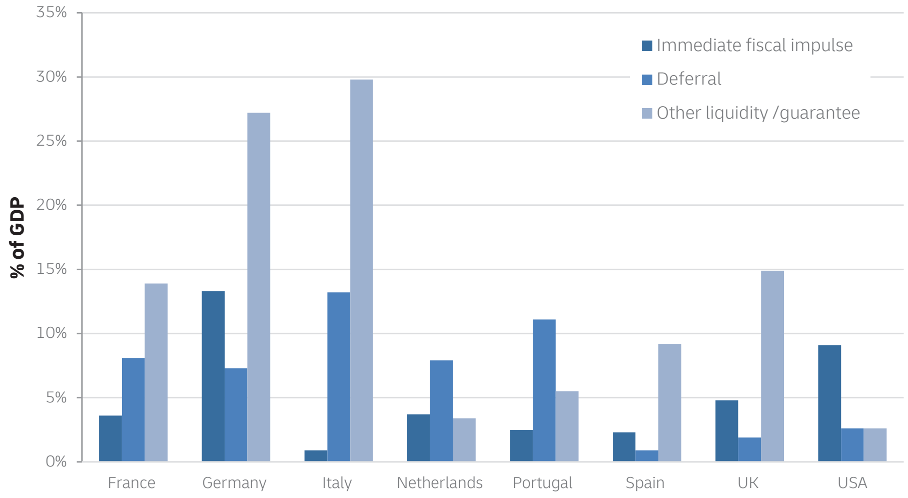
This report has shown that all covered countries are eager to show a bold reaction to the Corona crisis. One of the big questions is how sustainable the responses will be if the crisis will last longer than initially expected. Increasingly, forecasts assume a U-shaped recession rather than the initially expected (and hoped for) V-shaped recession. Moreover, it is very unclear whether a second wave of infections will require additional periods of lockdowns and restrictions. The question of financial capacity is a particularly pressing one against the background of the Euro crisis, which was triggered by a financial markets' loss of trust in the sustainability of public debt.

Indeed, we can expect a division between those countries whose debt is considered as sustainable (e.g., Austria, Germany, the Netherlands, and Sweden) on the one hand, and those countries who are more vulnerable to punishment by financial markets in the form of rising bond spreads (e.g., Italy, Portugal, and Spain). Even in the former group, domestic politics could make it more difficult to have an equally ambitious response in potential second wave. This might make governments more reluctant to place health concerns above economic interests.

The Brussels European and Global Economic Laboratory keeps track of the discretionary fiscal responses of several EU countries covered in this report, as well as of the United Kingdom and the United States (Anderson et al. 2020). Fiscal responses are broken down into several categories: the immediate fiscal impulse (discretionary public spending and tax breaks), deferrals of taxes and social contributions, and liquidity assistance or guarantees (see also Section 3). While fiscal impulses, deferrals, and liquidity assistance affect public debt immediately, guaranteed loans create potential costs in the future.

The distribution of the fiscal responses across these categories (measured in percent of GDP) is depicted in Figure 1 for those countries in our report with available data. The first observation is that (based on these estimates) pre-crisis fiscal position does not determine the size of the reaction. Overall, Italy, Portugal and Spain each have more ambitious packages than the Netherlands. Second, what is remarkable is that these three countries mobilize relatively few resources for an immediate fiscal impulse. Portugal and Italy have relatively large deferrals that (hopefully) will lead to a rebound in tax revenue in 2021. A potentially worrying observation is that Italy in particular heavily relies on measures that might produce large and uncertain costs in the future. Third, Germany and to a smaller extent also the United States stand out with the size of its immediate fiscal impulse. This obviously benefits from the fact that both countries do not have to worry too much about punishment through financial markets. If this strong reaction helps to kick-start the economy after the lockdown and to prevent bankruptcies, it could make it less likely that guaranteed loan default and turn to delayed costs of the crisis.

Figure 1: Size of fiscal stimulus for selected countries



Source: Anderson et al. (2020).
Note: Timing of last update varies. See original publication for details.

In addition to national labor market and fiscal support measures, the European Commission has proposed a complex rescue package at the European level. In particular, the Commission announced a new recovery instrument ("Next Generation EU") to be embedded in a "reinforced" long-term EU budget, referring to the multiannual financial framework for the period from 2021 to 2027. These ambitious measures are seen as complementary to national efforts to stabilize and revitalize the economy in EU Member States. A further impetus is to counter the divergence process that accelerated after the 2008-09 recession and to foster the transformation to a sustainable economy. While Next Generation EU is designed to provide 750 billion Euro, the budgetary measures correspond to about 1,100 billion Euro, adding up to about 1,800 billion Euro. Next Generation EU will be temporarily lifting the own-resources ceiling of the EU to 2 percent of the EU's Gross National Income, allowing the Commission to use its positive credit rating to borrow 750 billion Euro on the financial markets. This joint lending via the Commission constitutes an important change on the EU policy stance. The additional funding will be administered through EU programs and repaid over a long period of time through future EU budgets, starting only in 2028. To help do this in a "fair and shared" way, the Commission has suggested a number of new own resources such as an emission trading system, a carbon border adjustment mechanism or a tax on digital transactions. In addition, in order to make funds available as soon as possible to respond to the most pressing needs, the Commission proposes to amend the current multiannual financial framework 2014-2020 to make additional 11.5 billion Euro available already in 2020.

The money raised for Next Generation EU are planned to be invested across three pillars. The first is to support Member States with investments and reforms through a new Recovery and Resilience Facility of 560 billion Euro. It will offer financial support for investments and reforms, including activities in relation to the green and digital transition and the resilience of national economies. These resources will therefore be linked to the EU priorities by embedding them in the European Semester. The measure will be equipped with a grant facility of up to 310 billion Euro and will be able to make up to 250 billion Euro available in loans. Support will be available to all Member States but concentrated on the most heavily affected ones. In addition, a 55 billion Euro top-up of the current cohesion policy programs between now and 2022 is to be allocated based on the severity of the socio-economic impacts of the crisis, including the level of youth unemployment and the relative prosperity of Member States. Furthermore, the smaller Just Transition Fund and the European Agricultural Fund for Rural Development are supported. The second pillar aims at "kick-starting" the EU economy by stimulating private investment using a new Solvency Support Instrument, mobilizing private funds to support viable European companies in sectors, regions and countries most affected by the recession. It can rely on a budget of 31 billion Euro, aiming at 300 billion Euro in solvency support for companies from all economic sectors. In addition to this, the EU investment initiative is enlarged to 15.3 billion Euro to mobilize private investment in projects across the EU and a new Strategic Investment Facility to generate investments of up to 150 billion Euro in boosting the resilience of strategic sectors, thanks to a contribution of 15 billion Euro from Next Generation EU. The third pillar addresses relates to health program EU4Health. Its goal is to strengthen health security and prepare for future health crises with a budget of 9.4 billion Euro and a 2 billion Euro boost to the EU Civil Protection Mechanism. Further, 94.4 billion Euro are allocated to Horizon Europe which will be used to fund vital research in health, resilience and the green and digital transitions. All this is planned to be adopted in July 2020.

To mitigate the labor market impact of the COVID-19 recession, already in April 2020, the European Commission had initially proposed to the Council a temporary European financial instrument (Support to mitigate Unemployment Risks in an Emergency, SURE), which is now part of the larger EU rescue plan. Its goal is to support short-time work and related emergency schemes in EU Member states most affected by the crisis. This instrument has been adopted as EU Regulation 2020/672 by the Council on May 19, 2020, and national parliaments have to ratify it so that the scheme is likely to be operative in July 2020. This instrument, based on art. 122 TFEU, is to be funded through bonds issued by the EU up to 100 billion Euro backed by guarantees worth 25 billion Euro from all Member States corresponding to their shares in EU GDP (e.g., 6.4 billion Euro in Germany, as granted in mid-June). The supporting funds will be handed over as loans under favorable conditions to those Member States suffering heavily from the crisis and using short-time work (or similar measures, particularly for the self-employed) to secure employment and income. The distribution of the SURE funds depends upon decisions by the Council, based on proposals by the Commission. To this end, the Commission will have to assess requests from EU Member States and evaluate their situation, in particular the increase of spending on short-time work and similar measures. SURE is conceived as a temporary assistance to Member States available, under current rules, until the end of 2022, with the possibility of extending it if the crisis persists. SURE can be seen as an ad hoc European reinsurance of national short-time work schemes. To understand the proposal, two levels have to be distinguished: 1) the general role of short-time work and 2) the genuine European contribution.

As we have shown above, most countries covered by the IZA Crisis Response Monitoring have adopted a short-time scheme, with notable differences in scope and intensity. Short-time work only makes sense if one can expect a return to "normal" economic activity and increased labor demand in the near future. Ideally, short-time work schemes provide assistance to firms and workers for as long as the emergency situation lasts. SURE is arguably inspired by the remarkable success of the German short-time work scheme during the 2008-09 crisis, where it helped avoid job losses in the heavily exposed export sector. Now, the COVID-19 crisis not only affects manufacturing, but also many small and medium-sized firms in the service sector as well as the self-employed. In these cases, short-time work and assistance to self-employed outside unemployment insurance can only work if it is administered in a way that facilitates access by target groups that have no experience with this scheme. As the country reports show, this creates strong demands on the responsible administrative bodies.

Hence, while we know that some countries have created or expanded short-time work in response to the 2008-09 crisis and are going even further in the current situation, it will be crucial to what extent the newly affected firms and freelancers can effectively be supported and how the additional funds available through SURE can be used effectively to expand short-time work or implement additional measures (e.g., to strengthen the retraining and placement for those workers in short-time schemes for whom a return to their pre-crisis jobs is in doubt due to structural change that might be accelerated by the crisis).

In this context, it is important to appreciate that short-time work is ideal to complement dismissal protection and can therefore be seen as an additional layer of a job insurance scheme (Vandenbroucke et al. 2020). It allows employers to retain workers at low cost instead of having to shoulder separation costs in the form of severance pay, long notice periods, or law suits. However, temporary workers tend to be excluded from this beneficial complementarity. Short-time work therefore risks leaving behind workers that are already vulnerable.

But it seems that the possibility to use short-time work allows working hours of permanent workers to absorb a large part of the shock, hence not increasing the risk for temporary workers (who are of course in general more likely to lose their job, but apparently not because of the use of short-time work). An explicit approach to protecting these groups would make the initiative more socially balanced. While the SURE program allows for adjustments and in particular for assistance to the self-employed, it remains to be seen if and to what extent non-standard workers are included by national decisions and facilitated by the EU backing. This is important in particular for the segmented labor markets that exist in some of the heavily exposed countries.

Beyond design and implementation issues of short-time work that are also highlighted in the individual country reports, SURE can be seen as a timely, necessary (but limited) expression of European solidarity (Vandenbroucke et al. 2020) with the Member States, firms and workers that are affected by the crisis in an unprecedented way. There is a short- and medium-term dimension to this. In the short run, the European contribution relieves immediate pressure on national budgets and unemployment funds. Of course, it is too early to tell if the funds are sufficient to make a difference and if the national administration can deliver short-time work quickly enough to those in need. At the same time, the European initiative does not directly interfere with the diversity of national schemes. While this is justified by the time pressure involved, it would be important to ensure that European funds do not simply crowd out national spending, but lead to a genuine expansion. This applies in particular to the question of how generous and inclusive national systems are towards low-wage earners, workers on non-standard contracts or vulnerable, economically dependent self-employed. Hence, the increase in expenditure for short-time work and similar programs that is required to be supported by European loans should also be linked with a sufficient generosity and scope of these programs. The overall effectiveness of SURE (and national short-time work programs) depends ultimately on the recovery of the European and global economy, and the overall EU recovery plan plays a major role much beyond the contribution of SURE (Claeys 2020).

Second, in a mid- to long-term perspective, the proposed scheme could not only help stabilize member states' labor markets now, but also provide a pilot for the introduction of a permanent European unemployment (re)insurance system without preempting any further decision on this at the moment (Tesche 2020). SURE relies on bonds issued by the Commission which is a non-negligible policy innovation at the EU level (Claeys 2020). SURE is only a temporary and limited intervention and does not entail any interference with national unemployment benefit and short-time work schemes while a permanent European unemployment (re)insurance model would require at least some minimum harmonization regarding core functions and parameters (Andor 2020). The current crisis illustrates how valuable an effective system of automatic stabilizers without the need for cumbersome ad-hoc decision making would be. Based on our experience with previous crises, the European initiative to expand short-time work is a sensible policy that can help alleviate the COVID-19 shock. Beyond the current crisis, it could be an opportunity to address the pressing questions of how to organize European solidarity – and how to include workers at the margins of Europe's current employment models.

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